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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers;	CC Docket No. 00-256
Federal-State Joint Board on Universal Service;	CC Docket No. 96-45
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation;	CC Docket No. 98-77
Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers	CC Docket No. 98-166

COMMENTS OF INNOVATIVE TELEPHONE

Innovative Telephone ("Innovative") (formerly known as the Virgin Islands Telephone Corporation),[1] by its attorneys, hereby submits these comments in response to the *Further Notice of Proposed Rulemaking*.[2] The FNPRM requests comment on the merger of the Long Term Support mechanism ("LTS") and the newly created Interstate Common Line Support ("ICLS") as of July 1, 2003. Innovative agrees with the Commission that it should take a cautious approach to reforming the universal service support system for rate-of-return carriers, to "ensur[e] that consumers in all areas of the country, especially those living in high-cost, rural

[1] The Virgin Islands Telephone Corporation is doing business under the trade name "Innovative Telephone."

[2] *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 01-304 (rel. November 8, 2001) (*Second Report and Order*).

areas, have access to telecommunications services at affordable and reasonably comparable rates."[3] Innovative urges the Commission to ensure that the elimination of LTS as a separate explicit support mechanism does not result in a decrease in universal service support for its interstate loop costs. These funds are particularly critical to carriers in rural, insular and high-cost regions.[4] Innovative and other insular carriers currently depend on the revenues generated by LTS to maintain affordable rate in uniquely high-cost environments. A reduction in support would undermine rural and insular carriers' ability to maintain these affordable rates, inconsistent with the express goals of Section 254 of the Communications Act. Innovative therefore respectfully requests that the Commission reaffirm its commitment to ensure that any future modifications, including the merger of LTS and ICLS, do not affect the overall recovery of interstate access costs by rate-of-return carriers serving high-cost areas.[5]

A. Insular Areas Pose Unique Challenges Impacting the Cost of Telecommunications Service.

ILECs serving insular areas face circumstances that drive up the costs of providing services to customers. These characteristics are directly tied to the unique nature of insular areas -- their geographic isolation, their topography and geology, and the severe weather that they encounter.[6] These higher and unique costs are exacerbated when a carrier, such as Innovative, has carrier of last resort responsibilities in all portions of the islands.

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[3] *Id.* at ¶ 3.

[4] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8936 (1997) (subsequent history omitted) ("For many rural carriers, universal service support provides a large share of the carriers' revenues, and thus, any sudden change in the support mechanism may disproportionately affect rural carriers' operations.").

[5] *Second Report and Order* at ¶ 128.

[6] The harsh impact of these factors on insular carriers has been explored in detail by Dr. Kenneth Gordon, Vice President of National Economic Research Associates, Inc. ("NERA") and former Chairman of the Massachusetts

Geographic Isolation. A community located on an island suffers from much higher transportation costs than a similar community located on the mainland. These costs increase rapidly the farther the island is from the mainland because of the increased distance that material must be transported either by sea or air. The impact of transportation costs on an area like the Virgin Islands is substantial: A review of Innovative work orders indicates that every dollar of material used in operations incurs a transportation cost of $1.10, which more than doubles the effective cost of the equipment.

In the event of an emergency, it is difficult or impossible to rely on rapid importation of spare parts or specialized personnel. As a result, insular telephone carriers must stock substantially higher numbers of spares than a rural telephone carrier on the mainland. An insular carrier must be prepared to compensate for failures in other areas of infrastructure, as well. Less reliable electricity creates a need for greater redundancy and longer term operating capability in backup systems. These requirements increase costs.

Geography, Topography and Weather While insular areas in tropical climates are frequently portrayed as a kind of paradise, the reality for telecommunications service is very different. Insular areas, such as the U.S. Virgin Islands, are often formed as the result of volcanic activity, which leads to rough, rugged terrain composed mainly of volcanic rock, with extreme elevation changes over very short distances. The warm, moist tropical climate leads to enhanced need for environmental protection for telecommunications equipment and infrastructure. The high level of airborne salt continually blows in from the surrounding ocean and rapidly corrodes telecommunications facilities, aggravating this problem.

Department of Public Utilities and the Maine Public Utilities Commission. *See* Comments of Dr. Kenneth Gordon, CC Docket No. 96-45, *filed with Comments of Virgin Islands Telephone Co.* (filed Dec. 17, 1999).

Many insular areas also lie in the path of very severe weather patterns. The U.S. Virgin Islands are no exception. The territory's location in the Caribbean means that it is frequently hit by hurricanes,[7] which can rapidly and unexpectedly destroy large amounts of the Islands' infrastructure.[8] For example, in 1999 the Islands suffered a direct hit from Hurricane Lenny, which caused very substantial damage on St. Croix. Hurricane Lenny is the fifth hurricane to hit the islands in the past ten years. These severe weather conditions led the Commission's Rural Task Force to comment that: "Recent experience with hurricanes in the Virgin Islands seems to indicate that with the current frequency of these severe natural disasters, plant service lives may be better measured in months instead of years."[9]

The telecommunications infrastructure in the U.S. Virgin Islands is especially vulnerable because the rocky makeup of the ground generally makes the use of underground or buried cable expensive. The frequency of these storms exacerbates the large amount of resources that must be devoted to repairing and rebuilding the communications network when it suffers damage from each these storms.

The outcome of the unique geographical, geological, and climatological conditions that exist in insular regions is that carriers in these areas experience higher costs than carriers on the mainland.

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[7] NOAA has estimated that, in any given year, there is a greater than 50% probability that the U.S. Virgin Islands will be hit by a hurricane or tropical storm. *See* Christopher W. Landsea, *FAQ: Hurricanes, Typhoons and Tropical Cyclones, Part G: Tropical Cyclone Climatology, at* http://www.aoml.noaa.gov/hrd/tcfaq/tcfaqG.html#G12 (last modified Aug. 9, 2000).

[8] When Hurricane Marilyn hit the Virgin Islands in 1995, the Islands encountered maximum sustained winds of 102 mph, which destroyed an estimated 80% of the homes and businesses on St. Thomas and left at least 10,000 people homeless. *See* Edward N. Rappaport, Nat'l Hurricane Ctr., *Preliminary Report on Hurricane Marilyn, at* http://www.nhc.noaa.gov/ 1995marilyn.html (last updated Jan. 17, 1996). Approximately 30% of the houses on St. John were destroyed, and 20-30% of the houses on St. Croix were damaged. *See id.*

[9] Rural Task Force, *White Paper 2: The Rural Difference,* at 29 (Jan. 2000), *available at* http://www.wutc.wa.gov/rtf.

B. Innovative Depends Upon LTS to Maintain Rates at Affordable Levels.

The LTS mechanism currently comprises a critical part of the total support received by many carriers, such as Innovative, that operate in rural, insular and high-cost regions. In 1999, Innovative received $7,133,280 in LTS, approximately 40 percent of Innovative's total universal service support. LTS revenues have allowed Innovative and other high-cost LECs to maintain affordable rates in the face of CCL reductions.

In the FNPRM, the FCC stated that, "*most* carriers will receive Interstate Common Line Support in an amount equal to or greater than the amount of LTS support they now receive."[10] This could imply that some carriers will receive less support than before. If the Commission's elimination of LTS as a separate support mechanism causes carriers such as Innovative to receive less explicit support than they now receive, this will significantly impact consumers' telephone rates, which are already higher than average local rates. Concerns about just such an effect led the Commission to reject calls for a ICLS cap, finding that if the cap resulted in a reduction from the common line revenues carriers now receive, it "might undermine our universal service goals by creating pressures...to reduce service quality, increase local rates, or limit service offerings."[11]

Moreover, in insular markets, many of which continue to experience depressed economic conditions, there is simply less room for error when it comes to recovering the costs of the provision of telecommunications services. Insular economies present a very difficult environment for the establishment and maintenance of a high fixed-cost industry such as telecommunications. The ability of insular carriers to make a reasonable return on investment is

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[10] *Second Report and Order* at ¶ 274.

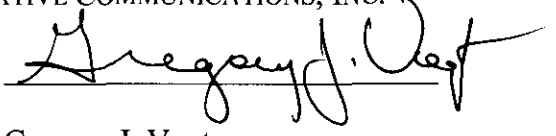
[11] *Id.* at ¶ 132.

nearly always in question. In addition, because the entire U.S. Virgin Islands is one local calling area, no intrastate toll service exists in the territory that would allow the territorial Commission to generate additional funding to subsidize high-cost local service. Without this alternative source of funding, the only source of funds available to offset any decrease in the total amount of federal universal service support is to raise the rates of, or limit the service offerings to, the telephone subscribers in the Territory. Given the small customer base of approximately 60,000 local loops, any rate increases cannot be widely dispersed, and given the economic conditions present in the Territory, any increase would hit every ratepayer especially hard.

CONCLUSION

Innovative supports the Commission's cautious approach to universal service and access charge reform. Innovative requests that the Commission reaffirm that after the elimination of LTS as a separate support mechanisms, rural and insular carriers that currently depend on LTS to maintain affordable rates "will receive Interstate Common Line Support in an amount equal to or greater than the amount of LTS support they now receive."[12]

INNOVATIVE COMMUNICATIONS, INC.

By: 

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[12] *Id.* at ¶ 274